

Message Text

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PAGE 01 CARACA 10181 292211Z

62

ACTION ARA-20

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TAGS: ENRG, EAGR, ETRD, VE

SUBJECT: VENEZUELA SHOULD BE EXEMPT FROM ANY U.S. SHORT
SUPPLY RESTRICTIONS

SUMMARY: IF AT ANY TIME U.S. GOVERNMENT SHOULD CONTEMPLATE
IMPOSING RESTRICTIONS ON ANY U.S. EXPORTS, MOST SERIOUS CON-
SIDERATION SHOULD BE GIVEN TO EXEMPTING VENEZUELA FROM SUCH
CONTROLS, AB INITIO, ON BASIS ITS POSITION AS MAJOR AND
FAITHFUL SUPPLIER OF PETROLEUM TO U.S. MARKET DURING THIS
CRITICAL PERIOD. FAILURE TO EXEMPT VENEZUELA FROM ANY SUCH
RESTRICTIONS WOULD BE LIKELY TO FORCE VENEZUELAN GOVERNMENT
TO USE ITS OIL AS WEAPON TO OBTAIN ESSENTIAL IMPORTS.
ACTION REQUESTED: SEE PARAGRAPH 7. END SUMMARY.

1. VENEZUELAN GOVERNMENT HAS DEMONSTRATED SENSE OF RES-
PONSIBILITY AND COGNIZANCE OF NEEDS OF U.S. IN RESISTING
VERY CONSIDERABLE DOMESTIC PRESSURES DURING THIS ELECTORAL
CAMPAIGN TO REDUCE PETROLEUM PRODUCTION, WHICH AT PRESENT
HIGH PRICE LEVELS IS GENERATING MORE REVENUE THAN VENEZUELA CAN
PROFITABLY USE. IT HAS ALSO RESISTED STRONG PRESSURE FROM
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PAGE 02 CARACA 10181 292211Z

STATE OIL COMPANY (CVP) TO REQUIRE OIL COMPANIES TO PAY

ROYALTIES IN KIND, A CHANGE THAT COULD HAVE REDIRECTED 600,000 B/D OF VENEZUELAN OIL, HALF OF WHICH GOES TO U.S., TO OTHER DESTINATIONS.

2. DURING CURRENT POLITICAL CAMPAIGN, SUBSTANTIAL PRESSURE HAS BEEN GENERATED BY VARIOUS LOCAL INDUSTRIALISTS TO USE PETROLEUM AS LEVERAGE TO ASSURE THAT VENEZUELA WILL RECEIVE SUFFICIENT IMPORTED RAW MATERIALS TO KEEP ITS INDUSTRY FULLY EMPLOYED. SO FAR, GOVERNMENT HAS AVOIDED ACTION ON THIS PROBLEM BUT THERE ARE SIGNS THAT IT WILL MOVE TO ASSURE ESSENTIAL IMPORTS IF SUPPLY THREATENED. COPEI CANDIDATE LORENZO HAS STRONGLY ENDORSED IN COPEI PLATFORM IDEA OF USING PETROLEUM AS LEVERAGE TO ASSURE SUPPLIES OF NECESSARY IMPORTED RAW MATERIALS. AD PLATFORM MADE MUCH Milder AND RATHER VAGUE REFERENCE TO SUCH POSSIBILITY, BUT AD CANDIDATE CARLOS ANDRES PEREZ IN BREAKFAST MEETING WITH REPORTERS NOVEMBER 27, WARNED THAT THERE WILL BE A GRAVE RAW MATERIAL CRISIS IN VENEZUELA WHICH WILL AFFECT METALLURGICAL INDUSTRIES. HE ALSO PREDICTED THAT PAPER WILL BE IN SHORT SUPPLY AND THAT PLASTIC INDUSTRY WILL BE IN STATE OF CRISIS BY JANUARY OWING TO RAW MATERIAL SHORTAGES. CARLOS ANDRES PEREZ ASKED RHETORICALLY, "WHY DON'T WE EMPLOY OUR OIL TO FORCE SUPPLY OF RAW MATERIALS REQUIRED BY OUR INDUSTRIES?"

3. NOVEMBER 28TH ISSUE OF EL NACIONAL, WHICH CARRIED CARLOS ANDRES PEREZ'S STATEMENT, ALSO CARRIED ON SAME PAGE A STATEMENT FROM PRESIDENT OF VENEZUELAN ASSOCIATION OF PLASTIC INDUSTRIES, ROGELIO CARRILLO PENSO, WHO SAID THAT SUPPLY OF RAW MATERIALS OF PETRO-CHEMICAL ORIGIN IS REACHING CRITICAL POINT. HE SAID IF ACTION IS NOT TAKEN IMMEDIATELY THERE WILL BE CHAOS IN PLASTIC INDUSTRY AFFECTING 6,000 WORKERS.

4. IT SEEMS CLEAR THAT ANY U.S. GOVERNMENT ACTION, SUCH AS SHORT SUPPLY CONTROLS, WHICH PROHIBITED OR RESTRICTED EXPORT OF CRITICAL RAW MATERIALS TO COUNTRIES SUCH AS VENEZUELAN WHICH ARE CONTINUING TO SUPPLY PETROLEUM IN FULL MEASURE TO THE U.S. DURING THIS CRITICAL TIME, WOULD BE DEEPLY RESENTED HERE AND WOULD BE LIKELY TO LEAD TO RETALIATION OR TO NEGOTIATIONS BACKED BY THREAT OF RETALIATION. CLEARLY SENSITIVITY WOULD BE GREATEST IN CASE OF RAW MATERIALS NEEDED BY VENEZUELA WHICH ARE OF PETROCHEMICAL ORIGIN AND WHICH LIMITED OFFICIAL USE

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PAGE 03 CARACA 10181 292211Z

THEREFORE COULD BE SAID TO DERIVE FROM VENEZUELAN PETROLEUM SENT TO U.S., BUT VENEZUELA WOULD BE TEMPTED TO USE ITS OIL LEVERAGE TO DEAL WITH ANY IMPORTANT SHORTAGES.

5. IF U.S. IS CONSIDERING IMPOSITION OF ANY SHORT SUPPLY CONTROLS IT WOULD BE BETTER TO EXEMPT VENEZUELA FROM THE VERY BEGINNING AS UNILATERAL ACT OF GOOD WILL RATHER THAN TO AWAIT INEVITABLE REPRESENTATIONS FROM VEN GOVERNMENT. IF VENEZUELAN GOVERNMENT

WERE FORCED TO CRANK ITSELF UP TO MAKE REPRESENTATIONS, ITS APPROACH MIGHT WELL NOT BE LIMITED TO REQUESTING EXEMPTION FROM SHORT SUPPLY CONTROLS, BUT MIGHT ALSO INCLUDE BROADER THRUST OF PEREZ LA SALVIA'S IDEAS INVOLVING USING PETROLEUM AS LEVERAGE TO OPEN MARKETS OF INDUSTRIALIZED COUNTRIES TO VENEZUELAN INDUSTRIAL EXPORTS.

6. IT SHOULD BE NOTED IN CLOSING THAT VENEZUELAN SENSITIVITY WOULD EXTEND NOT ONLY TO RESTRICTIONS THAT AFFECTED ITS INDUSTRIAL RAW MATERIAL IMPORT NEEDS, BUT ALSO ITS NEEDS FOR AGRICULTURAL RAW MATERIALS. UNITES STATES CONTROLS ON SOYBEANS EARLIER IN YEAR CREATED RESENTMENT HERE, AND TOGETHER WITH GRAIN SHORTAGES, GAVE IMPETUS TO MOVEMENT AMONG INDUSTRIALISTS TO USE OIL AS LEVERAGE TO SHELTER VENEZUELA FROM SHORTAGES THAT MAY BE WORLDWIDE IN SCOPE.

7. ACTION REQUESTED: (A) THAT USG ADOPT A DEFINITIVE POLICY POSITION TO EXEMPT VENEZUELA FROM POSSIBLE US SHORT-SUPPLY RESTRICTIONS SO LONG AS VENEZUELA CONTINUES TO IMPOSE NO RESTRICTIONS ON ITS PART TO TRADITIONAL EXPORTS OF PETROLEUM TO THE UNITED STATES DURING PRESENT WORLD ENERGY CRISIS; AND (B) THAT I BE AUTHORIZED OFFICIALLY TO INFORM THE VENEZUELAN FOREIGN MINISTER THAT (CARACAS 9341), IN VIEW OF WELCOME ASSURANCES FROM GOV THAT IT INTENDS TO CONTINUE EXPORTATION OF PETROLEUM TO THE UNITED STATES AT PRESENT VOLUMES, I AM HAPPY TO GIVE THESE VOLUNTARY ASSURANCES RE SHORT-SUPPLY RESTRICTIONS TO THE GOVERNMENT OF VENEZUELA.
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